

THE OFFICE OF REGULATORY STAFF
DIRECT TESTIMONY
OF
KELVIN L. MAJOR
SEPTEMBER 24, 2018



DOCKET NO. 2017-370-E

Joint Application and Petition of South Carolina Electric & Gas Company and Dominion Energy, Incorporated for Review and Approval of a Proposed Business Combination between SCANA Corporation and Dominion Energy, Incorporated, as May be Required, and for a Prudency Determination Regarding the Abandonment of the V.C. Summer Units 2 and 3 Project and Associated Customer Benefits and Cost Recovery Plans

DIRECT TESTIMONY

OF

KELVIN L. MAJOR

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2017-370-E

**IN RE: JOINT APPLICATION AND PETITION OF SOUTH CAROLINA
ELECTRIC & GAS COMPANY AND DOMINION ENERGY,
INCORPORATED FOR REVIEW AND APPROVAL OF A PROPOSED
BUSINESS COMBINATION BETWEEN SCANA CORPORATION AND
DOMINION ENERGY, INCORPORATED, AS MAY BE REQUIRED, AND
FOR A PRUDENCY DETERMINATION REGARDING THE
ABANDONMENT OF THE V.C. SUMMER UNITS 2 & 3 PROJECT
AND ASSOCIATED CUSTOMER BENEFITS AND COST RECOVERY
PLANS**

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Kelvin L. Major. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as an Audit Manager for the Office of Regulatory Staff ("ORS").

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree in Accounting from Clemson University in August of 2001. Prior to joining ORS, I held several accounting positions. I began my employment as an auditor with ORS in October of 2009 and was promoted to Audit Manager for New Nuclear, Telecommunications, and Transportation in May of 2016. I

1 have participated in various cases involving the regulation of electric, telecommunication,
2 transportation, water, and wastewater utilities.

3 **Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THE PUBLIC SERVICE**
4 **COMMISSION OF SOUTH CAROLINA?**

5 **A.** Yes. I have previously testified before the Public Service Commission of South
6 Carolina (“Commission”) in an electric rate case.

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

8 **A.** The purpose of my testimony is to describe the procedures used to determine the
9 allowable incremental construction work-in-progress (“CWIP”) in each revised rates
10 proceeding as well as the procedures used by ORS to calculate the allowable CWIP balance
11 for South Carolina Electric & Gas Company (“SCE&G” or “Company”).

12 **Q. PLEASE DESCRIBE THE PROCEDURES USED TO DETERMINE THE**
13 **ALLOWABLE INCREMENTAL CWIP IN EACH REVISED RATES**
14 **PROCEEDING.**

15 ORS obtained transaction-level detail of all new nuclear development (“NND”) and
16 transmission charges to CWIP during each review period. A typical revised rates review
17 period was June 1st through July 31st of the following year. These transactions were
18 sampled each month and the invoices for each of the sampled transactions were tested in
19 detail. ORS verified the mathematical accuracy of the sampled invoices and related
20 support, verified that each was incurred during the review period, and ensured that the
21 nature of each expenditure was related to the project. ORS also ensured that the charges
22 were approved by Company management prior to booking, were accrued in the month
23 incurred, and were coded into the appropriate construction cost categories. Items that did

1 not meet these criteria were deducted from the CWIP balance. ORS then recalculated the
2 allowance for funds used during construction (“AFUDC”) for the revised rates periods
3 based on actual allowable CWIP expenditures. The AFUDC was then added to the ORS
4 allowable CWIP. The gross cost of capital percentage and retail allocation factor, provided
5 by ORS’s Utility Rates Department, were applied to the ORS allowable CWIP to produce
6 the incremental allocated retail revenue requirement for the year.

7 **Q. DOES ORS AGREE WITH THE STATEMENT IN COMPANY WITNESS KEVIN**
8 **KOCHEMS DIRECT TESTIMONY THAT, ORS ONLY DISALLOWED TWELVE**
9 **THOUSAND DOLLARS IN PROJECT EXPENDITURES?**

10 **A.** No. In addition to the approximate \$12,000 of disallowed costs that Company
11 witness Kevin Kochems noted his direct testimony¹, ORS also disallowed \$198,000 of
12 consulting fees made to the former Chairman and CEO of SCANA Corporation due to a
13 lack of supporting documentation during the last revised rates proceeding. The Company
14 provided copies of corporate filings, an 8K dated January 7, 2011, and the 10-Q for Quarter
15 1 of 2011 as support for one of the quarterly payments made. A copy of the agreement
16 was included as an exhibit in the Company’s 10-Q. Based on the agreement, the consultant
17 was paid \$90,000 every quarter for a total of \$360,000 per year during the term of the
18 consulting arrangement. SCE&G’s 55% portion of the total amount was \$198,000. The
19 consultant’s term began on December 1, 2011 and ended on December 1, 2016. After
20 reviewing the agreement, ORS issued a request for additional supporting documentation
21 detailing the actual work performed by the consultant based on the information as outlined
22 in the agreement. The Company was unable to provide any of the requested

¹ Reference pg. 16 lines 3 – 9 of Company witness Kevin Kochems’ direct testimony.

documentation, and ORS removed the \$198,000 of payments made to the consultant during the revised rates period.

Q. PLEASE DESCRIBE THE PROCEDURES USED TO CALCULATE THE ALLOWABLE CWIP BALANCE?

A. As described in the direct testimony of ORS witness Gary Jones, the ORS NND Department designated the date of March 12, 2015 as the appropriate cutoff date for allowable NND CWIP in this proceeding. In order to determine the allowable CWIP expenditures through the March 12, 2015 cutoff date, ORS first obtained a monthly breakdown of NND expenditures from the Company. Adding in ORS's adjustments made in each revised rates proceeding, ORS verified the balance of CWIP through February 2015 of \$2,850,542,274 and expenditures occurring during March 2015 of \$39,105,134. ORS pro-rated the March expenditures and the total was \$15,137,471. The pro-rated March expenditures of \$15,137,471 were added to the balance of CWIP through February 2015, resulting in total NND CWIP expenditures through March 12, 2015 of \$2,865,679,745.

ORS further reduced this amount by \$19,943,940 to reflect the removal of expenditures incurred through March 12, 2015 for: consultant fees, an additional transfer from NND that was proposed by the Company, other miscellaneous adjustments proposed by the Company, expenditures related to equipment and materials that have been or will be sold before the same date, other costs deemed non allowable by ORS witnesses Gary Jones and Anthony James, and all SCE&G bonuses allocated to NND. After the removal of these additional expenditures ORS's allowable CWIP as of March 12, 2015 totals \$2,845,735,805.

Q. PLEASE EXPLAIN IN DETAIL EACH OF THE INDIVIDUAL ADJUSTMENTS INCLUDED IN THE ORS CWIP BALANCE AS OF MARCH 12, 2015.

A. ORS recommends a reduction to the balance of CWIP of \$19,943,940. I will address each adjustment in detail below.

1) Consulting Fees

ORS removed consulting fees of \$643,500 and the corresponding AFUDC of \$19,103 that is associated with those fees. This amount corresponds to all payments made to the consultant prior to March 12, 2015.

2) Company Adjustments contained in Exhibit KRK-1

ORS requested and obtained documentation from the Company related to the adjustments detailed in the notes on Exhibit KRK-1, namely the transfer of the railroad relocation spur, miscellaneous accounting adjustments, and the sale of a reactor coolant pump, along with the AFUDC associated with these items. The Company acknowledges that each of these items will result in a reduction to the CWIP balance. As a result, ORS has removed:

- \$1,348,635 related to the transfer of the railroad relocation spur and its corresponding AFUDC of \$75,124.
- \$850,214 related to a miscellaneous accounting adjustment that was made for the return of a Builders Risk Policy insurance premium due to the cancellation of the policy after abandonment, and its corresponding AFUDC of \$35,941.
- \$6,878,645 related to the sale of a reactor coolant pump along with its corresponding AFUDC of \$340,126 from the March 12, 2015 CWIP balance as calculated by ORS.

3) Fraudulent Procurement Activity

ORS removed \$42,873 of costs due to fraudulent activity discovered by ORS upon review of documents provided by the Company. The corresponding AFUDC is included in this amount.

4) Employee Bonuses

ORS removed all bonuses allocated to the NND project prior to March 12, 2015. ORS requested and obtained from the Company a breakdown of the NND project bonuses, and based on the information received, bonuses paid through February 28, 2015 totaled \$9,337,365. ORS then added to this amount the twelve day pro-rated portion of March 2015 bonuses of (\$24,879). Based on these calculations, ORS determined an approximate bonus amount of \$9,312,486 through March 12, 2015. This amount along with the corresponding AFUDC of \$397,293 was included in the \$19,943,940 reduction made to the March 12, 2015 CWIP balance. ORS witness Anthony James provides a detailed discussion of the ORS adjustment to remove employee bonuses.

The table below summarizes the calculation of the \$19,943,940 reduction.

	Direct Cost	AFUDC	Total
Consulting Fees	\$ 643,500	\$ 19,103	\$ 662,603
Relocation of Railroad Spur	1,348,635	75,124	1,423,759
Cancellation of Builders Risk Policy	850,214	35,941	886,155
Sale of Reactor Coolant Pump	6,878,645	340,126	7,218,771
Cost of Fraudulent Activity	40,859	2,014	42,873
Project Bonuses Allocated to NND	9,312,486	397,293	9,709,779
	<u>\$ 19,074,339</u>	<u>\$869,601</u>	<u>\$19,943,940</u>

EXHIBIT KRK-1 OF COMPANY WITNESS KEVIN KOCHEMS' DIRECT TESTIMONY REFERENCES AN ADDITIONAL \$3.6 MILLION REDUCTION TO

CWIP RELATED TO THE AFUDC ON TRANSFERS. HAS ORS ACCOUNTED FOR THIS REDUCTION IN CWIP IN ITS ANALYSIS?

A. Yes. The \$3.6 million of AFUDC corresponds to the \$85.6 million of transfers proposed by the Company. ORS witness Lane Kollen removes the March 12, 2015 prorated portion of the \$3.6 million of AFUDC as part of his analysis which is discussed in detail in his direct testimony.

Q. HAS ORS ACCOUNTED FOR THE FUTURE SALE OF ADDITIONAL EQUIPMENT AND MATERIALS AS A FURTHER REDUCTION TO CWIP AS NOTED ON EXHIBIT KRK-1 OF COMPANY WITNESS KEVIN KOCHEMS' DIRECT TESTIMONY?

A. No. These amounts are not known and measurable.

Q. HOW DOES ORS RECOMMEND THE COMMISSION TREAT THE FUTURE SALE OF EQUIPMENT AND MATERIALS?

A. ORS recommends the Commission reduce the allowable CWIP amount by the proceeds resulting from the sale of equipment or materials that were originally recorded to CWIP on or before March 12, 2015. Any sale of equipment or materials originally recorded to CWIP after that date has already been removed in ORS's adjustments.

Q. EXHIBIT KRK-1 OF COMPANY WITNESS KEVIN KOCHEMS' DIRECT TESTIMONY REFERENCES FURTHER CWIP REDUCTIONS RELATED TO MILESTONE PAYMENTS MADE TO WEC AND ESTIMATED PAYMENTS MADE TO WEC DURING THE INTERIM ASSESSMENT AGREEMENT. HAS ORS ACCOUNTED FOR THESE CWIP REDUCTIONS IN THE CALCULATION OF THE ALLOWABLE CWIP AMOUNT?

1 **A.** The expenditures for these two items occurred after ORS's March 12, 2015 cutoff
2 date and were not included in ORS's allowable CWIP.

3 **Q. ARE TRANSMISSION COSTS INCLUDED IN THE ALLOWED CWIP**
4 **BALANCE?**

5 **A.** No. Transmission costs are not included in the allowed CWIP balance because the
6 transmissions investments are not being abandoned. The Company is requesting to defer
7 these costs. ORS witness Gary Jones further discusses the deferral of transmission costs
8 in his direct testimony.

9 **Q. WILL YOU UPDATE YOUR TESTIMONY BASED ON INFORMATION THAT**
10 **BECOMES AVAILABLE?**

11 **A.** Yes. ORS fully reserves the right to revise its recommendations via supplemental
12 testimony should new information become available not previously provided by the
13 Company, or from pending state and federal investigations and lawsuits.

14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15 **A.** Yes it does.